

Annual Report 1976

RIO ALGOM LIMITED



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Rio Algom Limited

120 Adelaide Street West
Toronto, Canada
M5H 1W5

Highlights of 1976 Consolidated Operations

(in thousands except where noted by asterisk)	1976	1975
Sales	\$ 401,611	\$ 367,382
Net earnings	\$ 31,629	\$ 30,032
Per share of common stock	\$ 2.29	\$ 2.28
Dividends paid on common stock	\$ 13,506	\$ 13,490
Per share of common stock	\$ 1.00	\$ 1.00
Working capital, year end	\$ 261,302	\$ 215,766
Ratio of current assets to current liabilities	3.9 to 1	3.4 to 1
Common shareholders' equity	\$ 310,200	\$ 292,229
Total common shares outstanding at December 31	13,507	13,490
Equity per share of common stock outstanding ...	\$ 22.97	\$ 21.66
Production		
Uranium oxide (Pounds)	5,534	5,806
Copper in concentrate (Pounds)	145,712	116,811
Steel (Tons)	161	161
Number of employees at December 31	5,544	5,144

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Annual Meeting

The Company will hold an Annual Meeting on Wednesday, April 27, 1977 at 10:00 a.m. (Toronto time), in the Confederation Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

Directors' Report

To the Shareholders:

Consolidated net earnings for 1976 were \$31.6 million compared to \$30.0 million in 1975. Net earnings per common share were \$2.29 in 1976 and \$2.28 in 1975 when fewer shares were outstanding. Dividends of \$13.5 million on common shares were paid in 1976 at the same rate of \$1.00 per share as in the previous year.

The major changes in Rio Algom's earnings in 1976 compared with 1975 were increased earnings of the copper-molybdenum mine in British Columbia of Lornex Mining Corporation Ltd., which is 66.5% owned by Rio Algom, decreased earnings from uranium and steel operations, lower net interest costs and reduced income and mining taxes.

Rio Algom's interest in the \$15.3 million increase in net earnings of Lornex in 1976 amounted to \$10.2 million; net earnings from all other operations decreased by \$8.6 million after deduction of corporate expenses, the cost of exploration programs, and net interest charges and provisions for taxes on earnings, both exclusive of those of Lornex. Net interest charges were lower because of a greatly improved cash position, higher interest rates earned on funds invested in 1976 and the inclusion in investment and other income of the gain of \$1.5 million realized on the sale of plant and equipment of the Mines de Poirier copper mine during the second quarter of 1976. Provisions for Rio Algom's taxes on earnings were less, mainly because its pre-tax earnings excluding those of Lornex were lower.

In 1976 consolidated revenue from uranium operations of \$93.3 million was slightly below 1975. Earnings were significantly lower because price escalation formulae in long term contracts and renegotiation of some contract prices were not sufficient to offset somewhat lower grades and substantially higher mine operating costs. In addition, 1975 earnings benefited from two spot sales of uranium oxide at then prevailing market prices.

Total revenue from steel operations increased to \$225.3 million from \$218.6 million in 1975 including a slight increase in sales by the Atlas Steels specialty and stainless steels manufacturing operations. There was, however, a substantial deterioration in the earnings of these operations caused by a weaker product mix, reduced profit margins resulting from continuation of

the price/cost squeeze and a strike at the Tracy plant. Sales by the Atlas Alloys metal service centre distribution operations also increased slightly in 1976 but earnings were lower than in the previous year because prices continued to be subjected to competitive pressures and operating expenses increased despite stringent cost controls. Earnings were also affected adversely by deterioration of currency exchange rates in Mexico, Australia and the United Kingdom where Atlas Alloys has service centres.

The Review of Operations section of this Report contains further information regarding these operations during the year.

As of December 31, 1976 the Company and its United States subsidiary held firm contracts for delivery of 88.8 million pounds of uranium oxide represented by 85.4 million pounds to be delivered from Elliot Lake, Ontario, and 3.4 million pounds to be delivered from the Lisbon mine in Utah. Deliveries of 27.5 million pounds will be made over the period 1977 through 1983 under contracts that contain escalation provisions and 0.9 million pounds are scheduled to be delivered during 1977 at fixed prices. The balance, comprising 60.4 million pounds of uranium oxide, will be delivered over the period 1979 through 1992 at prices that are to be determined on an annual basis at the higher of a minimum price and a settlement price that takes into account free world market conditions for uranium at the time of delivery.

With the exception of contracts for 3.4 million pounds of uranium oxide, government approvals for the Canadian export contracts have been obtained. In addition, all Canadian export contracts are subject to annual export permits. The Company's export deliveries in 1976 were allowed on a provisional basis pending conclusion of negotiations between Canada and a number of countries on new bilateral safeguards agreements. Such agreements have not yet been reached by Canada with the European Economic Community and with Japan. Most of Rio Algom's current export deliveries are made to the United Kingdom and Japan. If export permits are not forthcoming in the near future, the Company will endeavour to make suitable arrangements with these customers to receive payment for the uranium and to store the material until such time as it can be shipped from Canada.

The Review of Operations section of this Report includes a map of the Elliot Lake area on which the locations of the Company's uranium properties are identified on the North and South Limbs of the uranium bearing formation. The expansion and reactivation of production facilities of properties on the North Limb required to fulfil current contractual commitments are described in the Operations section of this Report. The properties on the South Limb, including three mines that were operated before being closed some years ago, contain substantial lower grade uranium deposits that are not committed. Studies are now under way to determine the most advantageous method of redeveloping these properties for production.

At the end of 1976 the Company's investment in respect of its 10% interest in Rossing Uranium Limited was \$8.1 million including advances of \$1.1 million. Commissioning of the mine and plant located in South West Africa was begun in the summer of 1976. Processing problems have been encountered and remedial programs have been undertaken.

Exploration activities during the year are described in the Operations section of this Report. The Company plans to broaden and diversify its exploration programs in 1977 and subsequent years by expanding activities in the United States and by extending its search for metals and minerals not now mined. The basic 1977 Canadian exploration programs are expected to be maintained at about the 1976 level.

Net capital expenditures totalled \$61.0 million in 1976. The main projects were the Elliot Lake expansion program of \$27.0 million, new open pit mining equipment, tailings dam construction and housing at Lornex of \$16.4 million and the new melting facilities at Welland of \$9.5 million. Comparable total capital expenditures were \$29.5 million and \$14.3 million in 1975 and 1974, respectively. It is expected that there will be a further major increase in 1977 related mainly to the Elliot Lake expansion and a program to increase the capacity of the equipment used in the open pit operation at Lornex. It is estimated that the capital funds required for the North Limb and Lornex programs can be provided from the companies' cash resources.

Rio Algom's capital programs at Elliot Lake will result in a major increase in direct employment

supplemented by increases in indirect employment in northern and other communities. At Atlas Steels the new Welland steel melting facility will strengthen the Company's competitive position through improved operations and will also provide additional melting capacity that can be utilized when market conditions improve. Atlas is the largest single employer in Welland and the direct and indirect employment opportunities made available by a successful Atlas operation are important to this community.

Inflation has a particularly detrimental effect on capital intensive organizations which compete internationally, such as Rio Algom, and on those individuals who depend on them directly or indirectly for their livelihood. The ability to control capital and operating costs and to forecast earnings from capital programs is impaired by the uncertainties inherent under inflationary conditions. Under these circumstances the desirability of undertaking major new projects must be examined with particular care and projects that would normally be undertaken tend to be deferred. In addition, the financing of projects from a company's own resources is made more difficult by the imposition of taxes on the illusory profits resulting from understatement of the replacement cost of assets consumed and the cost of external financing is increased by the actions of governments in borrowing in capital markets to fund their current account deficits.

Since major new productive capital expenditures are probably the most effective single means of achieving the dual objectives of curtailing inflation and increasing employment, it is regrettable that inflation and other disincentives are discouraging the expansion of productive capital investment in Canada. Under these circumstances it is imperative that the present destructive rate of inflation be curtailed, that employment opportunities be increased through the provision of mechanisms that encourage productive capital investment under market economy conditions, and that all levels of government curb their pre-emptive spending and financing practices.

In June, 1976 the Company's United States subsidiary, Rio Algom Corporation, was served with a subpoena in aid of an inquiry being carried on by a Grand Jury convened by the United States Department of Justice. The stated purpose of the inquiry is to

investigate into the world-wide practices in uranium production and marketing. Rio Algom Corporation has responded to the subpoena. Subsequently, in October, 1976, Westinghouse Electric Corporation commenced an action in the United States District Court for the Northern District of Illinois in which 29 defendants are named, including Rio Algom Limited and Rio Algom Corporation. The complaint filed by Westinghouse alleges illegal combinations and conspiracies among the defendants to restrain both the interstate and foreign commerce of the United States in uranium in violation of the Sherman Antitrust and Wilson Tariff Acts. On the advice of counsel, Rio Algom Limited did not appear in the action and the resulting default has been noted on the court record. Rio Algom Corporation has filed an appearance to the action and will contest Westinghouse's complaint.

Rio Algom is subject to the regulatory controls of profit margins, prices, compensation and dividends established under the Canadian Government's Anti-Inflation Act which became effective October 14, 1975. With respect to control of domestic prices and profit margins, a small amount of excess revenue, as defined in the Act, was generated in 1975; this excess has been disposed of in accordance with a compliance plan approved by the Anti-Inflation Board. It is expected that excess revenue, if any, for 1976 will be minimal; any excess will be disposed of through continuation of the approved compliance plan. With respect to control of compensation, certain labor contracts, negotiated during 1976, have been amended to comply with Anti-Inflation Board rulings; the Company is also complying with the legislation in respect to non-union compensation and dividends.

Mr. R. G. Connochie, formerly Manager, Planning, was appointed Vice-President, Planning in December, 1976. This appointment was made in recognition of the importance of this function to the Company and of Mr. Connochie's effective performance over a period of years.

Mr. B. R. MacKenzie, who has served Rio Algom as a director for fifteen years, has reached retirement age under the Company's policy with regard to directors and accordingly will not present himself for re-election at the Annual Meeting on April 27, 1977. He has made major and valuable contributions to Rio Algom's growth and

progress over this extended period and his advice and counsel will be missed. His fellow directors wish to record their appreciation for the distinguished manner in which Mr. MacKenzie has served the interests of the Company. It is intended that the vacancy created by Mr. MacKenzie's retirement will be filled by the election to the Board of Mr. D. S. Affleck.

The Directors wish to record their appreciation to the management and employees of Rio Algom and associated companies whose loyal and diligent efforts made this possible.

On behalf of the Board

R. D. ARMSTRONG,
Chairman and Chief
Executive Officer

G. R. ALBINO,
President and Chief
Operating Officer

Toronto, Canada
February 25, 1977

Review of Operations

MINING

Earnings from the Company's mining operations before providing for income and mining taxes and minority interests were \$63,175,000 in 1976 compared to \$49,539,000 in 1975. Total net revenue from mining operations was \$176,266,000 compared to \$148,794,000 last year.

URANIUM

Comparative milling, metallurgical, production and shipping data from uranium operations for the years 1976 and 1975 are as follows:

	Elliot Lake		Lisbon	
	1976	1975	1976	1975
Tons of ore milled (thousands)	1,562	1,466	267	253
Average tons milled per day	4,574	4,350	734	702
Average recovered grade per ton (lbs)	2.8	3.1	3.9	4.6
Average mill recovery	94.2%	95.1%	92.6%	92.0%
Pounds of uranium oxide produced (thousands)	4,483	4,639	1,051	1,167
Pounds of uranium oxide delivered (thousands)	5,300	5,592	1,000	1,200

Elliot Lake

All uranium production in 1976 at the Elliot Lake operations was from the New Quirke mine and the Quirke mill. The total tonnage of ore milled and the average tons milled per day were both higher than in the previous year despite a continued shortage of experienced miners and difficulties experienced in avoiding interruptions to production during the mine and mill expansion program.

Wage rates and the costs of energy and operating materials escalated during the year and the resultant cost increases were well in excess of the amount which could be offset by improved operating efficiencies and continuing cost control programs. These cost increases, coupled with the decline in grade of ore and the costs of mine development required to support the increased milling rate achieved in 1976, resulted in a significant increase in unit operating costs during the year.

Net capital expenditures in 1976 of \$28.9 million were mainly for the expansion of production facilities. The first phase of the expansion program, which is necessary to increase uranium production to fulfil current contractual commitments, requires an increase in the capacity of the Quirke mill from 4,500 to 7,000 tons of ore per day and expansion of the New Quirke mine workings to provide the additional ore. This project was initiated in 1975 and is scheduled for completion in 1978 at a budgeted capital cost of \$76 million excluding interest which is being capitalized during construction. It is expected that this undertaking will be completed on time and within budget.

The second phase of the expansion program was announced in October, 1976. It comprises reactivation of the Panel mine and mill at a cost that will exceed \$100 million; the definitive cost will be determined when the optimum milling rate has been established. Preparatory work has begun and it is expected that a final decision will be taken during the summer of 1977 regarding ore supply and the milling rate. An interim capital budget of \$14 million has been established to provide for preparatory work at the site, a definitive environmental, engineering and operating study, the completion of a definitive cost estimate and the ordering of long lead time equipment. Production from the reactivated Panel operation is scheduled to begin in 1980.



The completion of these two expansion projects will enable the Company to fulfil all uranium contracts that it currently holds for deliveries from its Elliot Lake properties and will provide for continuity of operations of the North Limb mines at least into the 1990's.

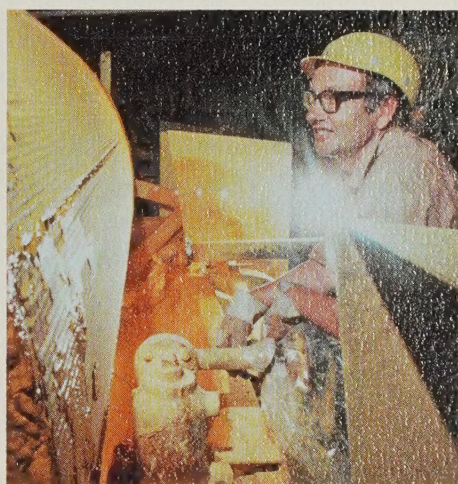
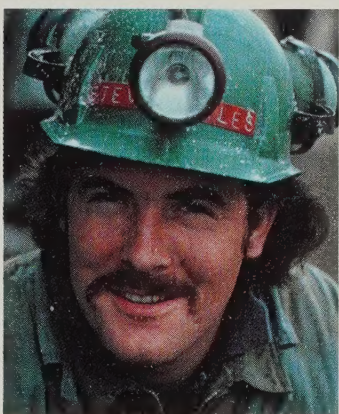
At full production the expanded Quirke and reactivated Panel operations are expected to provide employment for about 1,200 additional people; this represents an approximate doubling of Rio Algom's present Elliot Lake work force. To provide for essential accommodation needs a housing expansion program was initiated in 1975. A total of 371 additional units were provided in 1975 and 1976 and about 1,100 new units are expected to be built in the five-year period 1977 through 1981. The 1977 program provides for construction of 320 housing units at an average cost of about \$55,000 per unit. The housing units are of high quality and provide a balanced mixture of detached and semi-detached dwellings, townhouses and apartments. The housing is owned by the Company and is rented to employees at rates that are significantly below the cost of similar accommodation elsewhere. The Elliot Lake housing program is being financed by N.H.A. mortgages to the maximum extent possible.

The Report of the Royal Commission on the Health and Safety of Workers in Mines was released in August, 1976 by the Province of Ontario. The Company has stated its agreement with the main elements of the recommendations contained in the report. An appreciable number of the recommendations had already been implemented at Elliot Lake at the time the report was released and action is being taken on the remaining recommendations; in some cases regulatory changes are required before the recommendations can be implemented. The average dust concentrations in the New Quirke mine have been reduced below the levels recommended in the Commission report and radiation values in the mine continue to be satisfactory. Rio Algom has joined with other Canadian uranium producers in requesting government authorities to complete a thorough study of all aspects of exposure to radiation in mines in order to ensure that changes in regulations reflect valid conclusions regarding the effect of such exposure.

The Ontario Ministry of the Environment has asked the uranium companies in the Elliot Lake area to prepare a report on the effect on the environment of their planned expansion of mining and milling operations. The Environmental Assessment Board held a preliminary hearing on November 30, 1976. An interim report will be submitted to the Board on March 31, 1977; a full report will be submitted about mid-1977 and hearings are expected to take place soon thereafter.

The ability to attract and retain a skilled work force is critical to the expanding operations in the Elliot Lake area. Wage rates are competitive, attractive housing at subsidized rental rates is being provided and the Company has provided or has participated in the provision of amenities which the community has chosen. The courses established in 1973 to qualify trainees as miners and tradesmen were again expanded in 1976. This training program will be further expanded in 1977 and subsequent years.



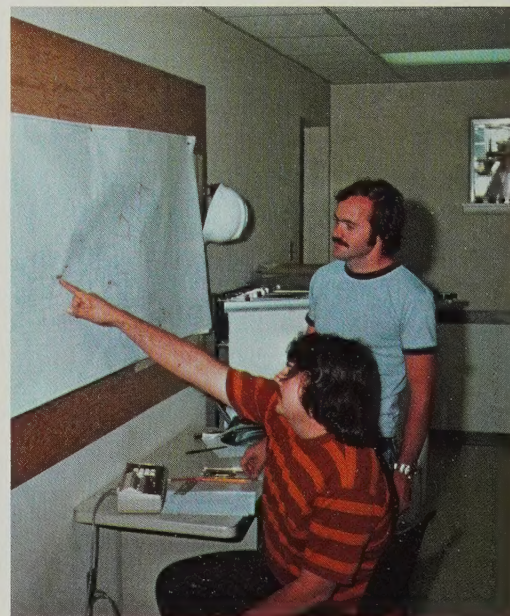
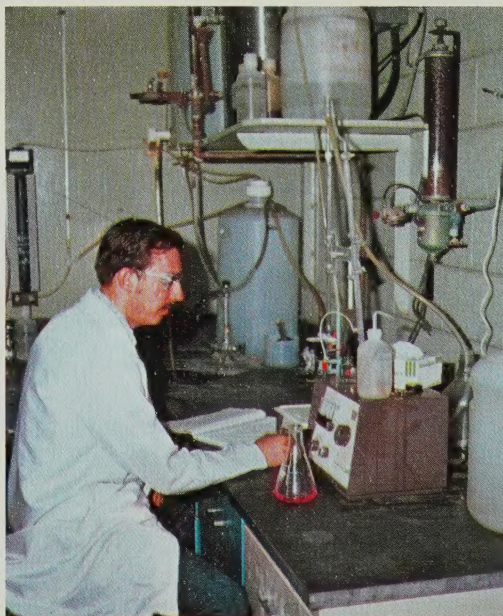
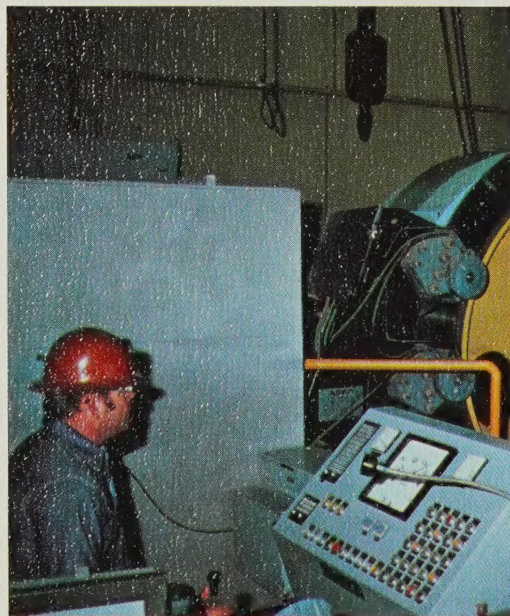
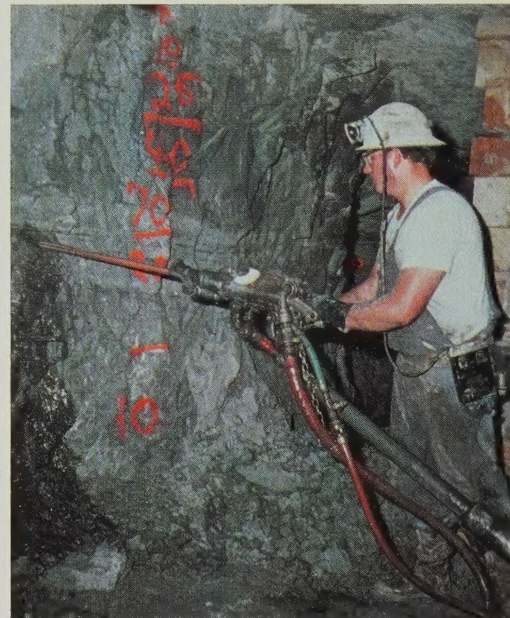
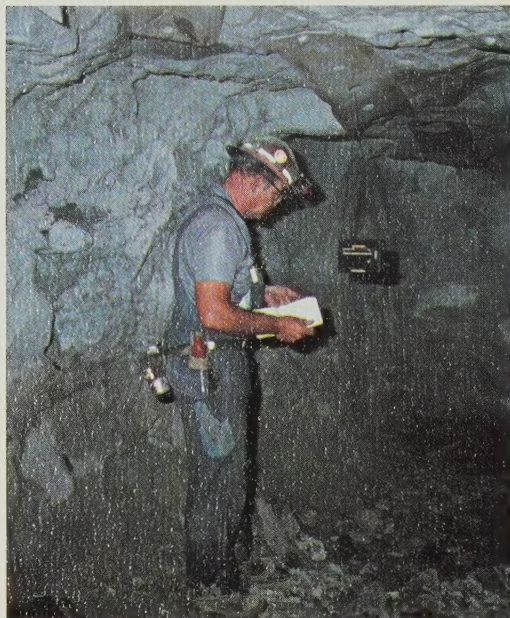
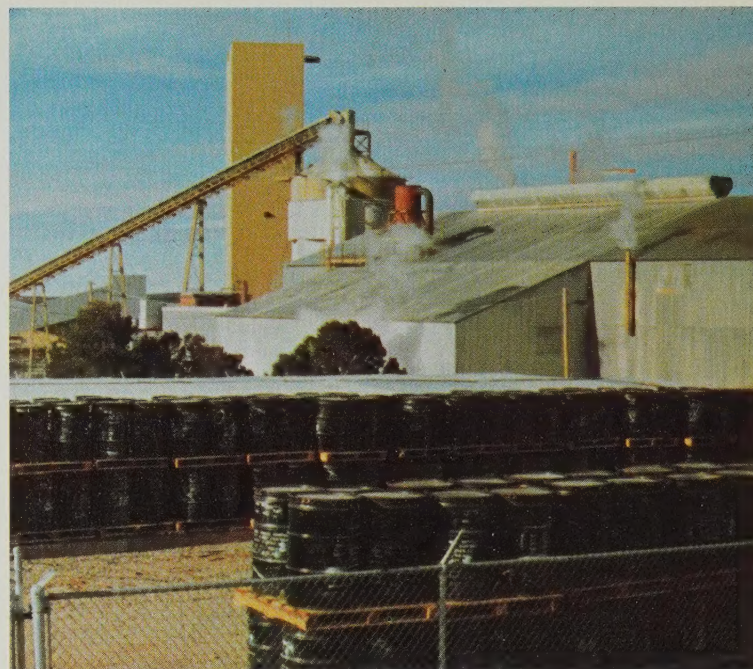


Lisbon Mine

The tonnage of ore milled and the average tons milled per day increased over the previous year and exceeded the design capacity of the mill. The mill head grade of ore was lower than in 1975 and was also lower than originally anticipated. Manpower availability was adequate except for certain work for which particular skills are required.

During the year the costs of materials and supplies escalated at a lower rate than experienced in the past several years. Cost reductions included changes in the sourcing of reagents for use in the mill and modifications to the milling process to eliminate the use of peroxide.

Since June, 1972 operations have been conducted under a provisional source materials license issued by the United States Atomic Energy Commission. An application for a permanent source materials license is still pending before the United States Nuclear Regulatory Commission, an agency of the United States Government established in October, 1974 to take over certain of the functions formerly exercised by the Atomic Energy Commission.



COPPER

Comparative milling, metallurgical, production and shipping data from copper operations in 1976 and 1975 are as follows:

	Lornex		Poirier	
	1976	1975 ⁽¹⁾	1976	1975 ⁽²⁾
Tons of ore milled (thousands)	17,016	12,893	—	221
Average tons milled per operating day	46,877	38,259	—	1,611
Average mill head grade — copper	0.511%	0.495%	—	2.4%
— molybdenum	0.016%	0.016%	—	—
Average mill recovery — copper	86.7%	87.1%	—	95.0%
— molybdenum	69.7%	74.3%	—	—
Pounds of payable copper in concentrate produced (thousands)	145,712	107,160	—	9,651
Pounds of payable molybdenum in concentrate produced (thousands)	3,769	3,084	—	—
Pounds of payable metal in concentrate delivered (thousands)				
— copper	144,301	117,891	—	9,651
— molybdenum	3,782	3,170	—	—

(1) The Lornex mine and mill operations were closed for three weeks during August, 1975.

(2) The Poirier mine and mill operations were permanently closed on June 27, 1975.

Lornex

The results of operations of the copper-molybdenum mine in British Columbia, and the financial position of Lornex Mining Corporation Ltd., which was 66.5% owned by Rio Algom at year end, are included with those of Rio Algom on a fully consolidated basis. The comparative operating results and the financial position of Lornex as an entity are summarized opposite.

Net revenue from production increased to \$82.9 million in 1976 from \$51.0 million in 1975 mainly due to an increase in the production of copper in concentrate and slightly higher copper prices. Despite generally depressed copper market conditions and curtailment of deliveries to Japanese customers, other sales made it possible for production to be maintained at higher rates than otherwise would have been the case. Copper prices moved moderately upward to mid-year but declined thereafter; the gross copper revenue price applicable to production averaged 65 cents per payable pound in 1976 compared to 55 cents in 1975 and 72 cents in 1974. Although Lornex' wage rates and the costs of operating materials and supplies continued to escalate, unit operating costs in 1976 were at the same level as in the previous year as a result of improved efficiency in operations and higher volume.

Earnings before interest and taxes increased to \$34.5 million in 1976 from \$14.3 million in 1975. Net interest costs decreased by \$1.7 million because interest charges on capital debt were lower by \$1 million and interest income increased by \$0.7 million. The total provision by Lornex for taxes and royalties was \$14.1 million in 1976 as compared to \$7.5 million in 1975. This comprised increased provisions for income and mineral resource taxes attributable to higher

Results of Operations (\$000's):

	1976	1975
Net revenue from production	\$ 82,940	\$ 51,043
Operating expenses	40,485	30,818
Amortization and depreciation	8,002	5,917
	<u>48,487</u>	<u>36,735</u>
Earnings before interest and taxes	34,453	14,308
Interest costs (net of investment and other income)	4,487	6,146
Earnings before taxes	29,966	8,162
Income and mineral resource taxes and government royalty	14,063	7,536
Net earnings for year	<u>\$ 15,903</u>	<u>\$ 626</u>
Minority shareholders' interests in above earnings	<u>\$ 5,327</u>	<u>\$ 210</u>

Summary of Financial Position (\$000's):

	1976	1975
Cash and short term deposits	\$ 19,825	\$ 10,141
Receivables and inventories	39,967	40,505
Current assets	59,792	50,646
Current liabilities	25,301	26,604
Working capital	34,491	24,042
Fixed and other assets (net)	137,650	128,538
Total assets less current liabilities	<u>172,141</u>	<u>152,580</u>
Deduct:		
Long term debt	62,263	66,952
Deferred income and mineral resource taxes	28,535	20,390
	<u>90,798</u>	<u>87,342</u>
Net assets	<u>\$ 81,343</u>	<u>\$ 65,238</u>
Minority shareholders' interests in net assets	<u>\$ 27,250</u>	<u>\$ 21,855</u>

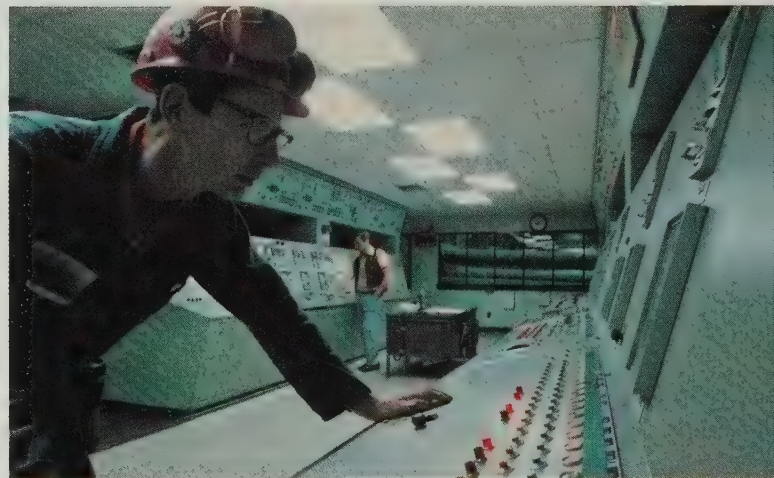
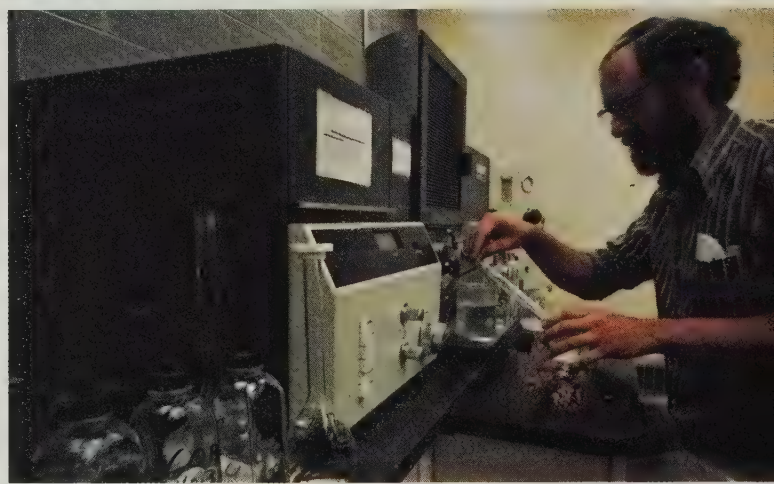
A copy of the Lornex Annual Report for 1976, including the complete financial statements and notes thereto, will be provided upon request.

pre-tax earnings and increased tax rates modified by the effect of the discontinuance of the royalty previously imposed on gross revenues. Although the new tax legislation passed by the British Columbia Government on June 30, 1976, effective January 1, 1976, eliminated government royalties commencing in 1977, it replaced the existing 15% mining tax with a 17.5% mineral resource tax and eliminated the deductibility of certain items in the calculation of provincial income taxes.

Net capital expenditures in 1976 were \$17.1 million. The major items were the purchase of open pit haulage trucks, a 22 cubic yard capacity electric shovel, tailings system revisions, additional employee housing and normal equipment replacements. In 1976 Lornex embarked on a program to increase the capacity of some equipment used in the open pit operation. This comprises the addition of seven new 235 ton capacity trucks and the purchase of the new 22 cubic yard electric shovel referred to above to augment the five 15 cubic yard electric shovels now in service. In addition, the planned overhaul of the 120 ton capacity truck fleet will extend the useful lives of these units. It is expected that capital expenditures in 1977 related to this program will be higher than in 1976.

The estimated Lornex ore reserves were increased during the year by 98 million tons with an average grade of 0.444% copper and 0.019% molybdenum as a result of a program carried out at the mine involving examination of new geological data and other technical information. The reserves at December 31, 1976 are currently estimated to be 500 million tons of ore with an average grade of 0.412% copper and 0.015% molybdenum. The reserves as now estimated will permit continuation of operation well beyond the year 2000 at the milling rate achieved in 1976.

The third party capital debt arranged to finance the original development of Lornex in 1972 totalled \$86.8 million; in addition Lornex obtained \$44.1 million through the issue of Income Debenture units to Rio Algom (\$36.1 million) and The Yukon Consolidated Gold Corporation Limited (\$8.0 million) and obtained mortgage financing to develop the Logan Lake townsite. Repayment of the third party capital debt was completed in 1976 and, under the terms of its Income Debenture covenants, Lornex was then required to apply all of its available cash to repayment of this debt which, together with accrued interest, amounted to \$71 million at September 30, 1976. This debt was repaid in full on that date, mainly from the proceeds of new bank loans in the amount of U.S. \$70 million which are repayable on a target schedule basis over a five year term. The loans were arranged in United States funds primarily because Lornex' sales revenue is in this currency. The interest rate applicable to these United States dollar loans is also currently lower than on Canadian dollar loans and below the 8½% rate applicable to the Income Debentures that were repaid; the interest charges on these new loans are deductible for tax purposes and dividend restrictions are less rigid than those that were in effect while the Income Debentures were outstanding. Rio Algom was repaid an amount of \$58.5 million and The Yukon Consolidated Gold Corporation Limited an amount of \$12.5 million as a result of these transactions.







Research and Development

In 1976 research and development activities were mainly related to the expansion programs in the Elliot Lake area. These included the operational testing of a new thickener design and pilot scale research on a new ion exchange system. Work related to environmental matters included the first year of a five year program on tailings stabilization in co-operation with the Federal Department of Mines. Programs were continued relating to improvement in underground working conditions including a newly developed ventilation monitoring system that was put into operation during the year.

Exploration

Exploration expenditures by Rio Algom and its subsidiaries, including expenditures on the Sage Creek coking coal and Lac Roberge asbestos projects, were \$6,827,000 compared with \$6,198,000 in 1975. Field offices were opened in Fredericton, New Brunswick and Spokane, Washington and independent exploration groups were retained to conduct programs in Canada and in the United States in addition to the aggressive exploration programs that were carried out by the Company or its subsidiaries in these countries.

Drilling on a property in the Chibougamau area of Quebec indicated 330,000 tons grading 3.2% copper in a shallow deposit still undelimited, and drilling in this area on another property held by a joint venture (33⅓% Rio Algom) indicated 430,000 tons grading 7.1% zinc and 0.5% copper with minor gold and silver values in a deposit still not completely delimited. Both deposits are of economic interest because of their proximity to the Chibougamau mining camp. Rio Algom's interest in these deposits results from the initial efforts of a sponsored independent exploration group. Several base metal prospects in Ontario warrant follow up in 1977 and a joint venture will be continued in Newfoundland.

In the Northwest Territories a 75 square mile property 110 miles west of Norman Wells containing Mississippi-type zinc mineralization with minor lead values yielded distinct encouragement from a reconnaissance drilling program on a 2,000 foot spaced grid pattern carried out in 1976. This drilling, which tested less than half of the

property, established a main trend of potential ore grade mineralization over a 5 mile length and 3,500 foot width. A more intensive drilling program is planned for the 1977 exploration season. This prospect was discovered in 1974 through the efforts of a sponsored independent exploration group. A joint venture (50% Rio Algom) found high grade copper and zinc mineralization by trenching on another prospect in the Northwest Territories. Several other base metal prospects in British Columbia, the Yukon and Northwest Territories will be investigated further in 1977.

In the United States increased attention was directed to uranium possibilities in southeastern Utah within range of the Lisbon mill. Several uranium prospects in Colorado and Nevada and porphyry-copper prospects in Arizona and Montana will be investigated further in 1977.

Investigative programs on the Sage Creek coking coal prospect located in southeastern British Columbia were continued during the year. A limited field program including additional drilling to further delineate the coal deposits was carried out and environmental studies were continued. A technical evaluation based on an annual production rate of 3 million tons of metallurgical coal was developed and is being assessed. A study is also underway to determine the feasibility of an operation at an alternative rate of 1.5 million tons per year.

Investigations of the Lac Roberge asbestos property in the Chibougamau area of Quebec continued mainly with regard to metallurgical and economic evaluations.

Employee Relations

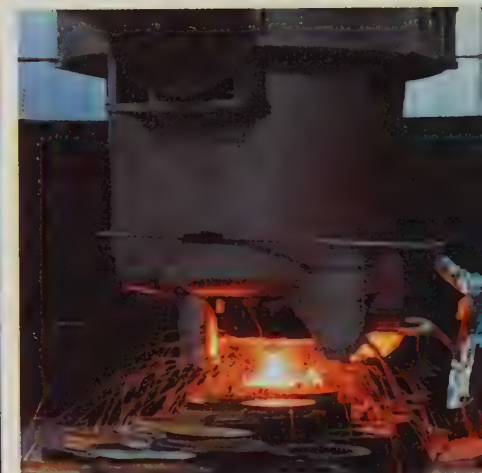
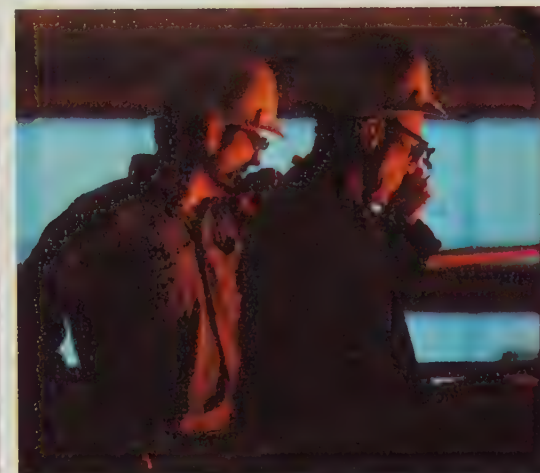
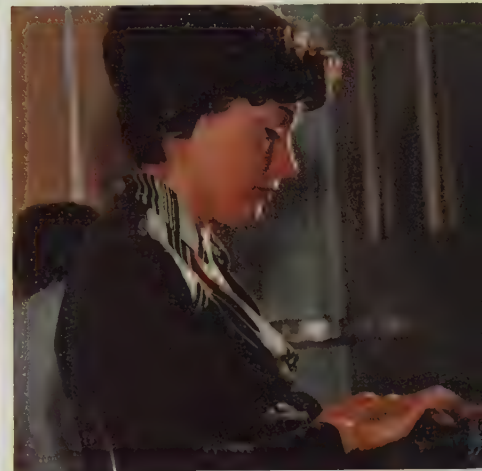
At December 31, 1976 there were 2,170 employees engaged in mining operations of whom 1,556 were engaged in production, 565 engaged in executive, technical, administrative or clerical functions and 49 engaged in exploration activities.

In the Elliot Lake area a collective agreement with the production and maintenance employees is in effect until October 15, 1978. Agreements with the office and technical employees and the operating engineers were negotiated during the year and are in effect until November 30, 1978 and October 15, 1978, respectively. At the Lornex mine, agreements with the production and maintenance employees and the office and technical employees were negotiated during the year and are in effect until June 30, 1978. The contracts negotiated during the year were subject to the restraints of the Anti-Inflation Act. Following review the agreements were amended or are being amended to comply with Anti-Inflation Board decisions.

The agreement with the production and maintenance employees at the Lisbon mine is in effect until February 28, 1979.

Labor relations are considered to be good with no unusual difficulties other than a brief work stoppage at Lornex and participation by Elliot Lake and some Lornex employees in the National Day of Protest against the Anti-Inflation program called for October 14, 1976 by the Canadian Labour Congress.

- 1 Arizona
- 2 Utah
- 3, 7 Northern Ontario
- 4, 6 Northwest Territories
- 5 Colorado



STEEL

Earnings from specialty and stainless steels operations before providing for income taxes were \$5,707,000 in 1976 compared to \$16,323,000 in 1975. Total sales, including metal products purchased from others by the Atlas Alloys metal service centre distribution group for resale, amounted to \$225,345,000 in 1976 compared to \$218,588,000 in the previous year. Net capital expenditures in 1976 were \$14,974,000.

ATLAS STEELS

Marketing and Distribution

In 1976 world-wide demand for most high alloy and stainless steels continued at depressed levels. This was primarily related to weakness in the capital goods and construction markets. The Canadian market was particularly depressed because of government postponements of energy related programs and reduced business spending related in part to the restricting effect of Anti-Inflation Board regulations on capital expansion programs.

Under these depressed conditions international prices of specialty steels continued at low levels and increased pressure from low priced imports adversely affected the Canadian market. The total order backlog remained at a low level during the year and on a wide range of products it was not possible to maintain satisfactory profit margins.

In mid-1976 the United States government established three year quotas on imports of stainless flat rolled steel and stainless and alloy tool steel bars into that country. During the last half of 1976 the import quota levels were higher than Atlas' shipments to the depressed United States market; the quotas are, however, expected to limit Atlas' exports to the United States when more normal market conditions develop.

Demand for low alloy bar products and stainless strip products improved somewhat compared to 1975. This improvement was related to increased demand from the North American automotive industry and at year end there was a continuing strong demand from this sector.

Manufacturing

Total production was increased slightly at the Welland plant. However, demand for specialty steel products related to capital goods uses declined significantly with a resultant negative impact on plant profits.

A nine week strike at the Tracy plant in early 1976 had a severe adverse effect on profits. During the balance of the year the plant operated at approximately 70% of capacity reflecting the weak domestic and export markets.

All categories of manufacturing costs, particularly labor, energy and supplies, continued to escalate. These increases were well in excess of the amounts that could be recovered by increased selling prices, although aggressive cost control and profit improvement programs which were continued throughout the year modified the effect of cost increases to some extent. As a result of these factors, and the nine week strike at the Tracy plant, there was a substantial deterioration in earnings.

There are no indications of alleviation of cost pressures and no signs of improvement in market conditions which would permit higher volumes and/or recovery of escalating costs through increased selling prices.

Steps have been taken to assure the availability of key raw materials by entering into long term contracts. Although the cost of power and gas continues to escalate at an alarming rate, it is expected that supplies will be adequate to meet manufacturing requirements.

The construction of the new melt shop at the Welland plant is continuing on schedule. This facility, comprising two 60-ton and one 25-ton electric arc furnaces, together with a vacuum refining system for stainless and specialty steels, is due to be completed in May, 1977. In the last quarter of 1976 the 25-ton furnace and one of the 60-ton furnaces were brought into full operation and part of the old melt shop phased out; no operational problems were encountered. Modifications have been made to the remainder of the plant to accommodate the first stages in the expansion of steel production in 1977 and the planned reduction of production costs.

At the Tracy plant, although the start-up period was longer than anticipated, the vacuum decarburizing facility for the treatment of stainless steel became fully operational near the end of the year. The benefits of this process, notably reduced raw material costs and steel quality improvement, are now being realized.

The major new air pollution control facility for the new Welland plant melt shop was brought into operation on schedule and has proven highly effective. When the old melt shop is shut down in early 1977 air pollution from melting operations at Welland will meet required standards. A similar facility was installed at the Tracy plant melting operations to control fumes from these sources. A water filtration and reclaim system for the Welland south plant is nearing completion and will be put into operation in the spring of 1977. Studies to determine the revisions to the water reclaim system required for the remainder of the Welland plant are in progress; installations are to be completed in 1980.

Research and Development

In 1976 research and development activities have continued to stress process improvements, operating cost reductions, improved product yield and utilization of waste and lower cost materials. Significant improvements in control over hot steel workability have been effected in the lower alloy tonnage portion of the product mix in the Welland plant.

ATLAS ALLOYS

Sales of the Atlas Alloys metal service centre distribution group were slightly higher than in 1975, notwithstanding severe currency fluctuations which affected the international companies.

In Canada, while total sales approximated those of the previous year, substantial variations occurred between the product groups. All product lines, excepting those related to the automotive industry, were affected by the general uncertainty prevalent in business activity throughout the

year. Sales of products that are largely dependent upon major capital development programs were lower than in 1975. Sales of other products were generally higher with the caution of customers evidenced by large numbers of small orders and little inclination towards inventory accumulation.

In the United States total sales reached record levels. Sales of some Atlas specialty steel products were lower but substantial increases were achieved in the sale of service centre type materials, particularly those associated with automotive tooling. Market coverage was significantly expanded during the last half of the year through the acquisition of the business of the K. C. Glader Company, a tool steel distributor located in Chicago.

The Australian company had a successful year, with sales reflecting a pronounced recovery in keeping with the country's improved economy. Loadings on the wire-drawing production unit were much improved, and sales of complementary products indicate continued encouraging growth in these markets. However, foreign exchange losses resulting from the devaluation of the Australian dollar sharply reduced otherwise satisfactory operating profits.

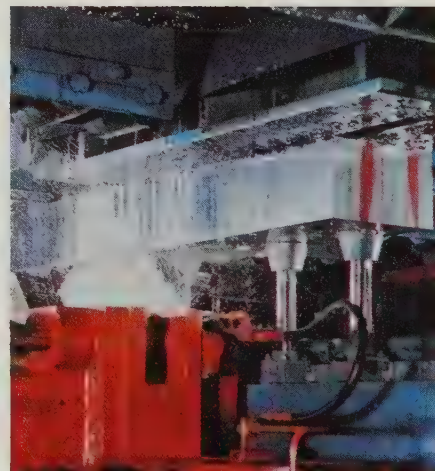
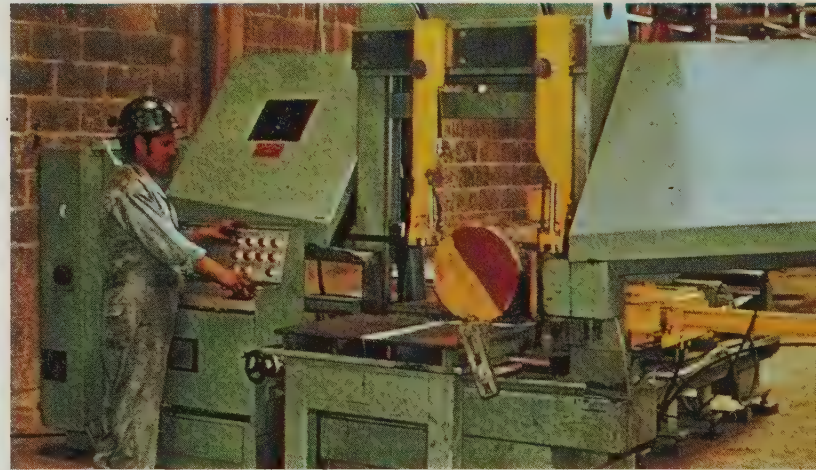
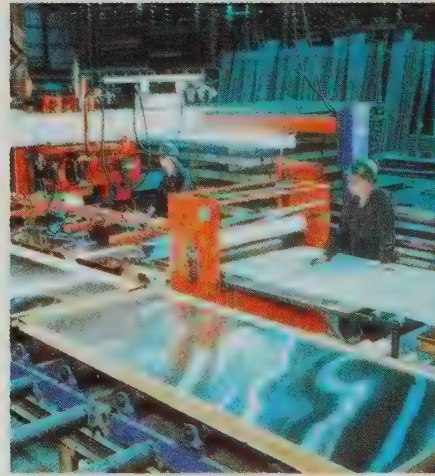
Operations in both the United Kingdom and in Mexico were adversely affected by continued economic uncertainties with any operating improvements more than offset by the effect of deterioration in currency exchange rates.

Employee Relations

At December 31, 1976 there were 3,221 employees engaged in steel operations of whom 1,856 were engaged in production, 758 in sales and marketing and 607 in executive, administrative and clerical functions. There were no work stoppages during the year except for a strike at the Tracy plant of nine weeks' duration from March 1 to May 2 while labor contracts were being negotiated. It is considered that relations with steel operation employees continued to be good.

During the year collective labor agreements were negotiated for both the Welland and Tracy plants. At the Welland plant the agreements for the production and maintenance employees are in effect until February 16, 1979 and for the office and technical employees until August 31, 1979. Agreements at the Tracy plant are in effect for the production and maintenance employees until November 30, 1978 and for office and technical employees until January 31, 1979.

All collective agreements entered into were subject to restraints provided for in the regulations under the Anti-Inflation Act and were submitted for approval. Settlements in three of the agreements were rolled back and the agreements were amended accordingly; a ruling has not been received with regard to the fourth agreement. It is noteworthy that the National Day of Protest against the Anti-Inflation program called for October 14, 1976 by the Canadian Labour Congress was not recognized or observed by any of the collective bargaining units. Normal operations were carried on at both the Welland and Tracy plants with better than normal attendance.



Accounting Policies

The principal accounting policies followed by Rio Algom Limited and its subsidiaries are summarized hereunder to facilitate a comprehensive review of the financial statements contained in this report.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Lornex Mining Corporation Ltd. and all other significant subsidiary companies.

The accounts in foreign currencies are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets and any related depreciation and long-term liabilities at rates in effect at time of transactions; and revenues and expenses (other than depreciation) at average rates for the year.

VALUATION OF INVENTORIES AND CONCENTRATES AWAITING SHIPMENT

Inventories of steel, other metals, raw materials and supplies are valued at the lower of cost and market. Cost is determined generally at average or standard costs which approximate actual. Market for steel and other metals is net realizable value and for raw materials and supplies is replacement cost. Intercompany profits have been excluded from these inventories.

Concentrates awaiting shipment are valued at estimated realizable metal prices.

DEPRECIATION AND AMORTIZATION

The following accounting policies are being followed in connection with the depreciation charges of the Company:

- (i) Mining fixed assets:
Depreciation is being provided on fixed assets on the basis of the shorter of physical life or economic life, as estimated for the individual mining units, the economic life to be adjusted from time to time as conditions warrant.
- (ii) Steel fixed assets:
Fixed assets are being depreciated on the straight line method based on engineering estimates of the lives of the assets at the following rates:

Buildings	4% per annum
Plant and equipment	6⅔% per annum

Mining properties and preproduction expenditures are being amortized on the same basis as depreciation is provided on mining fixed assets.

Excess of acquisition cost over adjusted book value of Atlas Steels assets is being amortized on a straight line basis over the period ending in 1982.

Debenture discount and financing expenses are being amortized on the debentures outstanding method over the life of the Sinking Fund Debentures Series B of the Company, which mature on July 15, 1995.

CAPITALIZATION OF INTEREST

The Company follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

DEVELOPMENT PROJECTS AND EXPLORATION

Development projects are carried forward as assets while the projects are considered to be of value to the Company. All exploration expenses have been written off.

INCOME TAXES

Income taxes are based on reported income which differs from taxable income. Differences arise when some revenues and costs, principally depreciation and mine development expenses, are reflected in different time periods for the financial statements than for income tax purposes. The tax effect of these timing differences is recognized in the accounts as deferred income taxes. This method is also being followed by Lornex.

Rio Algom Limited

Consolidated Statement of Financial Position

DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
CURRENT ASSETS:		
Cash and short term deposits	\$ 134,127	\$ 77,405
Receivables and prepaid expenses (note 5)	67,578	84,345
Inventories and concentrates awaiting shipment (notes 2 and 5)	149,693	144,494
Total	<u>351,398</u>	<u>306,244</u>
Less:		
CURRENT LIABILITIES:		
Bank loans	2,295	3,639
Accounts payable and accrued liabilities	60,796	52,394
Income and mining taxes	14,917	19,472
Long term debt due within one year (note 5)	12,088	14,973
Total	<u>90,096</u>	<u>90,478</u>
WORKING CAPITAL	<u>261,302</u>	<u>215,766</u>
Plant and equipment, less depreciation (note 3)	216,418	175,037
Mining properties and preproduction expenditures, less amortization (note 4)	46,377	47,000
Excess of acquisition cost over adjusted book value of Atlas Steels assets, less amortization	6,866	7,324
Debenture discount and financing expenses, less amortization	987	1,061
Investment in and advances to affiliated company, at cost (note 7)	8,073	4,449
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>540,023</u>	<u>450,637</u>
Deduct:		
Long term debt (note 5)	133,987	88,468
Deferred income and mining taxes	57,038	36,343
Minority shareholders' interests in subsidiary company	27,250	21,855
	<u>218,275</u>	<u>146,666</u>
EXCESS OF ASSETS OVER LIABILITIES	<u>\$ 321,748</u>	<u>\$ 303,971</u>
OWNERSHIP EVIDENCED BY		
Capital stock (note 6)	\$ 110,636	\$ 110,378
Contributed surplus	19,776	19,705
Retained earnings	191,336	173,888
Total	<u>\$ 321,748</u>	<u>\$ 303,971</u>

Approved on behalf of the Board:

G. C. GRAY, Director

R. D. ARMSTRONG, Director

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
REVENUE:		(Note)
Revenue from mine production and sales of steel and other products	\$ 401,611	\$ 367,382
EXPENSES:		
Cost of mine production and steel sales	271,624	239,401
Selling, general and administration	36,031	31,675
Interest (net) (note 11)	(2,405)	3,827
Depreciation and amortization (note 12)	20,652	20,419
Exploration	6,827	6,198
	332,729	301,520
	68,882	65,862
INCOME AND MINING TAXES:		
Current	9,276	22,545
Deferred	22,650	13,075
	31,926	35,620
Earnings before adjustment for minority interests in subsidiary company	36,956	30,242
Minority interests in profits of subsidiary	5,327	210
NET EARNINGS FOR THE YEAR	\$ 31,629	\$ 30,032
EARNINGS PER COMMON SHARE	\$ 2.29	\$ 2.28

Note: The 1975 figures shown in the above statement differ in certain respects from those previously reported by reason of reclassification for comparative purposes of certain items contained therein.

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
BALANCE, beginning of year	\$ 173,888	\$ 158,034
Add:		
Net earnings for the year	31,629	30,032
	205,517	188,066
Deduct:		
Dividends on preference shares	675	688
Dividends on common shares at the rate of \$1.00 per share	13,506	13,490
	14,181	14,178
BALANCE, end of year	\$ 191,336	\$ 173,888

Consolidated Statement of Contributed Surplus

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
BALANCE, beginning of year	\$ 19,705	\$ 20,009
Add:		
Profit on purchase of preference shares for cancellation	71	104
	19,776	20,113
Deduct:		
Expense of common share capital issue (net of income tax)	—	408
BALANCE, end of year	\$ 19,776	\$ 19,705

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
SOURCE OF FUNDS:		
Earnings before adjustment for minority interests in subsidiary company	\$ 36,956	\$ 30,242
Add items included in earnings not involving current outlay of funds:		
Depreciation, amortization and other charges (net)	21,788	21,562
Deferred income and mining taxes	22,650	13,075
Funds provided by operations	81,394	64,879
Bank loans of subsidiary	68,183	—
Housing and other mortgages	7,501	87
Issue of common shares (net of issue expenses)	—	25,297
Issue of sinking fund debentures (net of issue expenses)	—	48,905
Issue of common shares under stock option plan	452	59
	157,530	139,227
DISPOSITION OF FUNDS:		
Expenditures (net) for plant and equipment, mining properties and preproduction	60,952	29,506
Investment in affiliated company	3,624	3,258
Dividends on common shares	13,506	13,490
Dividends on preference shares	675	688
Purchase of minority shareholders' interests in subsidiary company	230	5,684
Purchase of preference shares for cancellation	123	166
Royalties recoverable	1,955	—
Reduction of long term debt:		
Rio Algom Limited debentures	6,081	5,066
Bank loans of subsidiaries	12,318	3,750
8½% Income Debentures of subsidiary and accrued interest	12,530	—
8¾% Notes of subsidiary	—	16,877
	111,994	78,485
INCREASE IN WORKING CAPITAL	45,536	60,742
Working Capital, beginning of year	215,766	155,024
Working Capital, end of year	\$ 261,302	\$ 215,766

Notes to Consolidated Financial Statements

DECEMBER 31, 1976

1. ACCOUNTING POLICIES

The information on page 17 presents a summary of certain accounting policies and is an integral part of these financial statements.

2. INVENTORIES AND CONCENTRATES AWAITING SHIPMENT

	1976	1975
Mining operations —		
Mine supplies	\$ 15,531,128	\$ 12,445,732
Concentrates awaiting shipment	53,652,578	61,718,865
	<u>69,183,706</u>	<u>74,164,597</u>
Steel operations —		
Steel, other metals, raw materials and supplies	80,509,849	70,329,608
	<u>\$149,693,555</u>	<u>\$144,494,205</u>

3. PLANT AND EQUIPMENT

Buildings, at cost	\$ 94,165,590	\$ 97,434,000
Machinery and equipment, at cost	227,095,309	224,491,760
	<u>321,260,899</u>	<u>321,925,760</u>
Less accumulated depreciation	179,438,526	172,019,084
	<u>141,822,373</u>	<u>149,906,676</u>
Construction in progress, at cost	72,837,873	23,426,092
Land, at cost	1,757,878	1,703,916
	<u>\$216,418,124</u>	<u>\$175,036,684</u>

Plant and equipment includes \$57,316,839 in respect of assets of mines presently idle which have been fully depreciated.

4. MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

	1976	1975
Mining properties, at cost	\$ 9,275,491	\$ 9,365,875
Less accumulated amortization	7,142,355	6,980,828
	<u>2,133,136</u>	<u>2,385,047</u>
Preproduction expenditures, at cost	124,563,876	126,880,204
Less accumulated amortization	80,319,512	82,264,855
	<u>44,244,364</u>	<u>44,615,349</u>
	<u>\$ 46,377,500</u>	<u>\$ 47,000,396</u>

5. LONG TERM DEBT

	1976	1975
Rio Algom Limited Sinking Fund Debentures (a)		
– 6¾% Series A maturing on April 1, 1983	\$ 14,852,500	\$ 20,934,000
– 11½% Series B maturing on July 15, 1995	50,000,000	50,000,000
Lornex Mining Corporation Ltd.		
– Bank loans (U.S.\$70,000,000) (b)	68,182,750	—
Less portion included in current liabilities (U.S.\$7,000,000)	* 6,818,275	—
Long term portion (U.S.\$63,000,000)	61,364,475	—
– 8½% Series A Income Debentures due December 31, 1985 and accrued interest thereon	—	11,765,699
– 8¾% Notes	—	11,223,243
Less portion included in current liabilities	* —	11,223,243
	—	—
Rio Algom Corporation bank loans (c)	5,220,000	9,250,000
Less portion included in current liabilities	* 5,220,000	3,750,000
	—	5,500,000
Housing and other mortgages payable (d)	7,819,738	267,648
Less portion included in current liabilities	* 50,000	—
	7,769,738	267,648
Total long term debt	\$133,986,713	\$ 88,467,347
*Total long term debt due within one year	\$ 12,088,275	\$ 14,973,243

- (a) The Company is required to make sinking fund payments for the retirement of the Sinking Fund Debentures in principal amounts as follows:

Series A — \$3,000,000 on October 1, 1977 to 1982 inclusive; and
Series B — \$2,500,000 on July 15, 1981 to 1994 inclusive.

During the year \$6,081,500 principal amount of Series A debentures was purchased for cancellation; \$1,934,000 was applied to satisfy the 1977 requirement, \$3,000,000 to satisfy the 1978 requirement and \$1,147,500 has been applied toward the 1979 requirement.

- (b) Repayment of the Lornex bank loans is secured by general assignments of the Lornex accounts and settlements receivable (\$8 million) and by registered assignments under Section 88 of the Bank Act of all Lornex concentrates awaiting shipment and Lornex mine supplies (\$31.2 million).

The interest rate on these loans is 1% above the minimum rate charged by the Canadian Imperial Bank of Commerce for United States dollar loans made in Canada; the December 31, 1976 rate payable by Lornex was 7½% per annum.

Under the terms of the bank loan agreement Lornex is required to repay, on February 15 and August 15 in each of the years 1977 to 1981 inclusive, a principal amount equal to the lesser of 75% of the available cash flow as defined or U.S.\$7,000,000.

- (c) The Rio Algom Corporation bank loans are repayable in three consecutive quarterly instalments of U.S.\$312,500 each due March 31, 1977 through September 30, 1977, and one final instalment of U.S.\$4,282,500, due December 31, 1977. The interest rate is the Citibank, N.A. base rate plus ¾% on amounts due through September 30, 1977 and base rate plus 1% on amounts due December 31, 1977; at December 31, 1976 the base rate was 6¼%.

- (d) The housing and other mortgages payable generally carry interest rates varying from 10½% to 11¾%.

6. CAPITAL STOCK

Authorized:

465,483 First Preference Shares with a par value of \$100 each, issuable in series
15,000,000 Common Shares without par value

Issued:

	<u>1976</u>	<u>1975</u>
115,483 \$5.80 Cumulative Redeemable First Preference Shares Series A (117,420 at December 31, 1975) (redeemable at premiums ranging from 3¼% to 1%)	\$ 11,548,300	\$ 11,742,000
13,506,649 Common Shares (13,489,522 at December 31, 1975)	99,087,930	98,636,077
	<u>\$110,636,230</u>	<u>\$110,378,077</u>

- (i) During the year:
- (a) 17,127 Common Shares were issued for \$451,853 cash under a Stock Option Plan; and
 - (b) 1,937 First Preference Shares were purchased for cancellation; the Company's 1976 obligations referred to in Note 7 (c) below have been fulfilled.
- (ii) At December 31, 1976, 68,648 Common Shares were reserved under a Stock Option Plan. Outstanding options have been granted to employees to purchase 43,395 Common Shares at prices varying from \$24.64 to \$28.35 per share; these options expire on varying dates from March 30, 1977 to April 13, 1983.
- (iii) There are restrictions on the payment of dividends in the provisions attaching to the Preference Shares and the Company's trust indentures relating to the Series A and Series B Debentures.

7. COMMITMENTS AND CONTINGENCIES

- (a) Estimated total cost to complete capital projects was approximately \$105,537,000 (committed \$22,894,000).
- (b) Minimum annual rentals upon real property with original lease terms extending beyond December 31, 1979 amounted to approximately \$913,000.
- (c) The Company is obligated on April 1 in each year to set aside \$300,000 as a retirement fund, to be used to purchase or redeem Preference Shares.
- (d) Unfunded liability for pension funds at December 31, 1976 was estimated at \$21,733,000. This is presently being funded over a period of 15 years as follows:
 - (i) \$2,606,000 per annum 1977 to 1979,
 - (ii) \$1,991,000 per annum for 1980 to 1988,
 - (iii) \$1,775,000 per annum for 1989 and 1990, and
 - (iv) \$1,166,000 for 1991.

The increase in the unfunded liability during the year was due to modifications to the various pension plans.

- (e) The Company is subject to regulatory controls of profit margins, price, compensation and dividends established under the Canadian Government's Anti-Inflation Act and Regulations which became effective October 14, 1975; the Company has complied with the requirements of this legislation.
- (f) In June, 1976 the Company's United States subsidiary, Rio Algom Corporation, was served with a subpoena in aid of an inquiry being carried on by a Grand Jury convened by the United States Department of Justice. The stated purpose of the inquiry is to investigate into the world-wide practices in uranium production and marketing. Rio Algom Corporation has responded to the subpoena. Subsequently, in October, 1976, Westinghouse Electric Corporation commenced an action in the United States District Court for the Northern District of Illinois in which 29 defendants are named, including Rio Algom Limited and Rio Algom Corporation. The complaint filed by Westinghouse alleges illegal combinations and conspiracies among the defendants to restrain both the interstate and foreign commerce of the United States in uranium in violation of the Sherman Antitrust and Wilson Tariff Acts. On the advice of counsel, Rio Algom Limited did not appear in the action and the resulting default has been noted on the court record. Rio Algom Corporation has filed an appearance to the action and will contest Westinghouse's complaint.

- (g) With the exception of contracts for 3.4 million pounds of uranium oxide, government approvals for the Canadian export contracts held by the Company have been obtained. In addition, all Canadian export contracts are subject to annual export permits. The Company's export deliveries in 1976 were allowed on a provisional basis pending conclusion of negotiations between Canada and a number of countries on new bilateral safeguards agreements. Such agreements have not yet been reached by Canada with the European Economic Community and with Japan. Most of the Company's current export deliveries are made to the United Kingdom and Japan. If export permits are not forthcoming in the near future, the Company will endeavour to make suitable arrangements with these customers to receive payment for the uranium and to store the material until such time as it can be shipped from Canada. The Company is not expected to be adversely affected.
- (h) The shares representing the Company's investment in an affiliated company have been pledged as security for debt owing by that affiliated company.
- (i) The Company has a contingent liability to buy back houses and mobile home lots at Lornex' Logan Lake townsite for \$5,825,019 until December 31, 1982.

8. UNAUDITED QUARTERLY RESULTS

The quarterly revenue, gross profit, net earnings and earnings per share as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (dollars in millions, except per share):

Quarter Ended	1976			
	Revenue	Gross Profit	Net Earnings	Earnings Per Share
Mar. 31	\$95.5	\$29.3	\$7.4	\$.53
June 30	99.7	30.0	9.0	.65
Sept. 30	104.8	38.6	7.9	.58
Dec. 31	101.6	32.1	7.3	.53
Year	<u>\$401.6</u>	<u>\$130.0</u>	<u>\$31.6</u>	<u>\$2.29</u>

9. CONVERSION OF FOREIGN CURRENCIES

The Company's accounting policy for conversion to Canadian dollars of accounts in foreign currencies is in accordance with the United States Financial Accounting Standards Board Statement No. 8 with the exception of its requirement to translate long-term debt at year-end exchange rates.

Long term debt includes bank loans of a subsidiary company, Lornex Mining Corporation Ltd., payable in U.S. dollars, amounting to U.S. \$63,000,000 which have been converted to Canadian dollars at the rate in effect at the time of the borrowing. Accordingly, the Company's earnings reported to shareholders will differ from that reflected in the Company's Form 10-K annual report for 1976 to the United States Securities and Exchange Commission. If the United States policy were followed the Company's earnings for 1976 would be reduced by \$1,507,000 during the fourth quarter of 1976.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the Directors and Senior Officers of the Company was \$982,596 in respect of the year ended December 31, 1976. In addition, amounts, charged to earnings in prior years in respect of discretionary deferred bonus awards, totalling \$222,833 became payable to those individuals during 1976.

11. INTEREST (NET)

	1976	1975
Interest on demand bank loans	\$ 610,049	\$ 1,276,062
Interest on long term debt	10,192,599	7,683,300
Interest capitalized	(2,351,000)	(930,000)
Investment and other income	(10,856,302)	(4,202,398)
	<u>\$ (2,404,654)</u>	<u>\$ 3,826,964</u>

12. DEPRECIATION AND AMORTIZATION

This consists of the following provisions:

	1976	1975
Plant and equipment	\$ 15,975,805	\$ 14,094,016
Mining properties and preproduction expenditures	3,580,148	5,277,944
Excess of acquisition cost over adjusted book value of Atlas Steels assets acquired	1,096,196	1,047,100
	<u>\$ 20,652,149</u>	<u>\$ 20,419,060</u>

13. ASSET REPLACEMENT COST (UNAUDITED)

The impact of inflation on the Company's production costs was generally greater than the corresponding change in the general price level. In the Company's steel operations the Company has historically not been able to compensate for cost increases by increasing selling prices. In the Company's mining operations selling prices are generally either increased by application of escalation formulae designed to compensate for unit cost increases, or are determined by reference to world commodity prices.

Due to inflation the replacement of plant and equipment with assets having equivalent productive capacity almost always requires a substantially greater capital investment than was required to purchase the assets which are being replaced.

The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to year-end 1976 replacement cost of inventories and productive capacity of its steel operations and the approximate effect which replacement cost would have had on the computation of the steel operations' cost of sales and depreciation expense for the year. Similar information with respect to the Company's mineral resource assets and mining operations will be supplied in next year's Form 10-K.

Auditors' Report

To the Shareholders of Rio Algom Limited:

We have examined the consolidated statement of financial position of Rio Algom Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with the requirements of Section 212 of the Companies' Act of British Columbia in our opinion due provision has been made for minority interests.

Toronto, Canada
February 25, 1977

COOPERS & LYBRAND
Chartered Accountants

Supplementary Information

Five Year Review

Rio Algom Limited and Subsidiaries

	1976	1975	1974	1973	1972
PRODUCTION DATA					
Uranium in concentrate (pounds-000's)	5,534	5,806	6,194	6,166	5,397
Copper in concentrate (pounds-000's)	145,712	116,811	144,156	129,800	52,680
Molybdenum in concentrate (pounds-000's)	3,769	3,084	4,038	3,481	581
Steel (tons-000's)	161	161	189	182	159
FINANCIAL DATA: (\$ 000's)					
Revenue:					
Mining Operations					
Uranium	\$ 93,326	\$ 93,416	\$ 68,232	\$ 53,887	\$ 41,950
Copper and associated metals	82,940	55,378	96,586	97,641	21,626
	<u>\$ 176,266</u>	<u>\$ 148,794</u>	<u>\$ 164,818</u>	<u>\$ 151,528</u>	<u>\$ 63,576</u>
Steel Operations					
Stainless steels	\$ 105,911	\$ 100,470	\$ 118,283	\$ 74,400	\$ 61,300
Machinery steels	31,914	42,674	39,245	28,000	22,900
Other steels and metals	87,520	75,444	68,225	60,992	48,389
	<u>\$ 225,345</u>	<u>\$ 218,588</u>	<u>\$ 225,753</u>	<u>\$ 163,392</u>	<u>\$ 132,589</u>
Total revenue	\$ 401,611	\$ 367,382	\$ 390,571	\$ 314,920	\$ 196,165
Investment and other income	10,856	4,202	5,548	2,438	683
	<u>\$ 412,467</u>	<u>\$ 371,584</u>	<u>\$ 396,119</u>	<u>\$ 317,358</u>	<u>\$ 196,848</u>
Cost of mine production and steel sales (note 4)	\$ 271,624	\$ 239,401	\$ 227,732	\$ 178,354	\$ 138,183
Selling, general and administration (note 4)	36,031	31,675	29,173	24,453	19,728
Interest expense (note 2)	8,451	8,029	8,904	11,840	4,733
Depreciation and amortization	20,652	20,419	20,958	20,853	12,943
Exploration	6,827	6,198	5,143	3,125	2,447
	<u>\$ 343,585</u>	<u>\$ 305,722</u>	<u>\$ 291,910</u>	<u>\$ 238,625</u>	<u>\$ 178,034</u>
Earnings before taxes and minority interests (note 3)					
— mining	\$ 63,175	\$ 49,539	\$ 69,693	\$ 65,883	\$ 17,424
— steel	5,707	16,323	34,516	12,850	1,390
— total	68,882	65,862	104,209	78,733	18,814
Income and mining taxes	31,926	35,620	50,619	12,353	2,935
	<u>\$ 36,956</u>	<u>\$ 30,242</u>	<u>\$ 53,590</u>	<u>\$ 66,380</u>	<u>\$ 15,879</u>
Minority interests in profits (losses) of subsidiaries	5,327	210	9,766	14,320	(429)
Net earnings	<u>\$ 31,629</u>	<u>\$ 30,032</u>	<u>\$ 43,824</u>	<u>\$ 52,060</u>	<u>\$ 16,308</u>
Earnings per share of common stock	\$ 2.29	\$ 2.28	\$ 3.52	\$ 4.19	\$ 1.27
Dividends paid on common stock (000's)	\$ 13,506	\$ 13,490	\$ 12,261	\$ 8,577	\$ 4,900
Per share of common stock	\$ 1.00	\$ 1.00	\$ 1.00	70¢	40¢
Common shares outstanding (000's)	13,506	13,490	12,261	12,259	12,250
Equity per share of common stock	\$ 22.97	\$ 21.66	\$ 20.45	\$ 17.92	\$ 14.41
Number of shareholders	11,800	12,700	13,000	13,500	14,700
Capital expenditures (000's)	\$ 60,952	\$ 29,504	\$ 14,261	\$ 9,251	\$ 33,218
Number of employees	5,544	5,144	5,362	5,450	5,302

NOTES:

- (1) Lornex and Lisbon mines commenced operations October 1, 1972 and the Poirier mine ceased operations June 27, 1975.
- (2) The amounts shown above for interest expense in 1976, 1975 and 1972 do not include interest capitalized in the amounts of \$ 2,351,000, \$ 930,000 and \$ 5,729,000 respectively.
- (3) In arriving at the earnings of the mining and steel operation before taxes and minority interests, parent company investment and other income, interest costs and general and administrative expenses have been allocated to the mining and steel operations on an appropriate basis.
- (4) The figures reported for the years 1972 to 1975 inclusive in the above statement differ in certain respects from those previously reported by reason of reclassification for comparative purposes of certain items contained therein.

Management Discussion and Analysis

In 1973 earnings from mining operations before taxes and minority interests increased by \$48,459,000 primarily because of the contribution of the Lornex copper-molybdenum mine which was not in production in the first three quarters of 1972 and higher copper and uranium prices. Pre-tax earnings of steel operations improved by \$11,460,000 due mainly to operational improvements, strong demand for stainless and specialty steels and to increases in selling prices on a broad range of products. Income and mining taxes increased by \$9,418,000, most of which resulted from the first full year's operation of Lornex. Part of the increase was due to the Company's first provision for deferred Canadian income taxes in the amount of \$2,800,000.

In total, earnings before taxes and minority interests in 1974 increased by \$25,476,000 of which \$3,810,000 occurred in mining operations and \$21,666,000 in steel operations. Earnings from mining operations increased primarily because of higher uranium earnings and improved volume and grade at Lornex, largely offset by lower copper prices. Earnings from steel operations improved mainly due to increased volume, improved product mix and higher selling prices. These improvements were more than offset by an increase of \$38,266,000 in income and mining taxes, including government royalty, partly due to increased earnings before taxes; these taxes were proportionately much higher in 1974 primarily because of higher provision by Rio Algom for income tax, provision by Lornex for British Columbia government royalty effective January 1, 1974, the expiry of the Lornex tax exempt period on December 31, 1973, the introduction of increased Ontario mining taxes effective April 9, 1974, and the disallowance, for federal tax purposes, of provincial mining taxes and royalties effective May 6, 1974.

In 1975 earnings before taxes and minority interests declined by \$38,347,000 of which \$20,154,000 occurred in mining operations and \$18,193,000 in steel operations. Earnings from mining operations decreased due to lower copper prices and a reduction in operating level at Lornex resulting from the depressed world-wide demand for copper; this was modified but not completely offset by a substantial increase in earnings from underground uranium mines. In the steel operations the deterioration in market conditions which had begun to manifest itself in the latter part of 1974 continued and accelerated in 1975. The aforementioned declines in operational earnings were offset somewhat by reductions of \$14,999,000 and \$9,556,000 in the provisions for income and mining taxes and the minority shareholders' interests in the profits of Lornex respectively.

In 1976 earnings before taxes and minority interests increased by \$3,020,000; earnings from mining operations increased by \$13,636,000 but this was largely offset by a decrease of \$10,616,000 in earnings from steel operations. The increase in earnings from mining operations was due mainly to increased earnings of the copper-molybdenum mine of Lornex, which is 66.5% owned by Rio Algom, resulting from an increase in copper production and slightly higher average copper prices. Earnings from uranium operations were significantly lower since price escalation formulae in long term contracts and renegotiation of some contract prices were not sufficient to offset somewhat lower grades and substantially higher mine operating costs. In addition, 1975 earnings benefited from two spot sales of uranium oxide at then prevailing market prices. In the steel operations there was a substantial deterioration in earnings caused by depressed market conditions, a weaker product mix, reduced profit margins due to competitive pressures, a nine-week strike at the Atlas Steels' Tracy plant and higher operating expenses; steel earnings were also affected adversely by deterioration in the values of currencies in Mexico, Australia and the United Kingdom. Investment and other income was higher in 1976 because of a greatly improved cash position, higher interest rates earned on funds invested in 1976 and the inclusion of the \$1.5 million gain realized on the sale of the plant and equipment of the Mines de Poirier copper mine during the second quarter of 1976. Income and mining tax provisions were \$3,694,000 lower in 1976 mainly because of lower earnings in the steel and uranium mining operations. Minority interests in profits of subsidiaries increased by \$5,117,000 in 1976 due to the improved earnings of Lornex.

Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Rio Algom Common Shares on The Toronto Stock Exchange and dividends paid on these shares by the Company.

	1976	1975
First Quarter	\$36 2/8 - 28 4/8	\$26 - 19
Second Quarter	35 - 31	30 6/8 - 22 4/8
Third Quarter	36 4/8 - 32 2/8	34 2/8 - 28 2/8
Fourth Quarter	32 7/8 - 26	31 - 27 6/8

Dividends paid per share: July 30, 1975 — 50¢; December 30, 1975 — 50¢.
June 29, 1976 — 50¢; December 30, 1976 — 50¢.

RIO ALGOM OPERATIONS AND AFFILIATES

Canada

MINING

Head Office — Toronto, Ontario

Uranium Operations —

New Quirke mine at Elliot Lake, Ontario

Copper Operations

Lornex Mining Corporation Ltd., Vancouver, B.C.

Lornex mine at Logan Lake, B.C.

EXPLORATION

Rio Tinto Canadian Exploration Limited,

(Riocanex)

Head Office — Toronto, Ontario

Branch and Field Offices at Vancouver, B.C.,

Kamloops, B.C. and Fredericton, N.B.

STEEL

Atlas Steels

Head Office — Welland, Ontario

Plants at Welland, Ontario and Tracy, Quebec

METAL DISTRIBUTION

Atlas Alloys

Head Office — Etobicoke, Ontario

Service Centres at Etobicoke, Montreal, Windsor,

Sarnia, Sudbury, Thunder Bay,

Winnipeg, Edmonton and Vancouver

United States

MINING

Rio Algom Corporation,

Registered Office — Wilmington, Delaware

Uranium Operations —

Lisbon mine at Moab, Utah

EXPLORATION

Rioamex, Division of Rio Algom Corporation,

Denver, Colorado and Spokane, Washington

METAL DISTRIBUTION

Atlas Alloys Inc.

Head Office — Cleveland, Ohio

Service Centres at Valley View, Ohio,

Detroit, Michigan and K. C. Glader Co.,

Chicago, Illinois

Overseas

METAL DISTRIBUTION

Atlas Alloys Limited, Dunstable, Beds., England

Atlas Steels (Australia) Pty. Limited, Melbourne,
Australia

Aceromex-Atlas S.A., Mexico City, Mexico

Agents or Distributors in other countries

MISCELLANEOUS CORPORATE INFORMATION

Head Office

120 Adelaide Street West, Toronto, Ontario, Canada

M5H 1W5

Auditors

Coopers & Lybrand, Chartered Accountants, Toronto

Registrars and Transfer Agents

Common Shares

Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg, Regina, Calgary
and Vancouver

The Canadian Bank of Commerce Trust
Company, New York

Preference Shares

Canada Permanent Trust Company,
Toronto, Montreal, Halifax, Winnipeg
and Vancouver

Shares Listed

Common Shares

Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal
American Stock Exchange, New York

Preference Shares

Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal

Form 10-K Annual Report

The Company's Form 10-K annual report for 1976
to the United States Securities and Exchange
Commission will be available on written
request to the Secretary of the Company.

Rio Algom Limited

120 Adelaide Street West
Toronto, Canada
M5H 1W5

Directors

*G. R. Albino

*President and Chief Operating Officer
of the Company, Toronto*

W. A. Arbuckle

*Chairman, Celanese Canada Limited,
Manufacturers of Chemicals
and Fibres, Montreal*

*†R. D. Armstrong

*Chairman and Chief Executive Officer
of the Company, Toronto*

†J. Ian Crookston

*Chairman, Nesbitt, Thomson and Company, Limited,
Investment Dealers, Toronto*

P. H. Dean

*Director, The Rio Tinto-Zinc Corporation Limited (1),
London, England*

J. G. Edison, QC

*Counsel to Aird, Zimmerman and Berlis,
Barristers & Solicitors, Toronto*

†G. C. Gray

President, A. E. LePage Limited, Realtors, Toronto.

*Sam Harris

*Senior Partner, Fried, Frank, Harris, Shriver &
Jacobson, Attorneys-at-Law, New York, U.S.A.*

L. A. Lapointe, QC

*Chairman, Miron Company Ltd.,
Manufacturers of Building Materials, Montreal*

*†B. R. MacKenzie, QC (2)

Counsel to Fasken & Calvin, Barristers & Solicitors, Toronto

W. Moodie

*President, Canadian Pacific Investments Limited,
an investment company, Montreal*

F. A. Petito

*Chairman and Managing Director, Morgan Stanley & Co.,
Incorporated, Investment Bankers, New York, U.S.A.*

*†J. Herbert Smith

Consulting Engineer, Toronto

*Sir Mark Turner

*Chairman and Chief Executive, The Rio Tinto-Zinc
Corporation Limited (1), London, England*

R. W. Wright, CBE

*Director, The Rio Tinto-Zinc Corporation Limited (1),
London, England*

*Members of the Executive Committee

†Members of the Audit Committee

(1) The parent of an international group of mining
and industrial companies.

(2) Not standing for re-election

Officers

EXECUTIVE

R. D. Armstrong

Chairman and Chief Executive Officer

G. R. Albino

President and Chief Operating Officer

CORPORATE

R. G. Connochie

Vice-President, Planning

J. G. Littlejohn

General Counsel

A. F. Lowell

Vice-President, Minerals Marketing

H. A. Pakrul

Vice-President, Controller

A. C. Turner

Vice-President, Secretary

J. Van Netten

Vice-President, Treasurer

MINING

E. W. Cheeseman

Vice-President, Underground Mining Operations

P. A. Carloss

Vice-President, Elliot Lake Operations

P. M. Kavanagh

Vice-President, Exploration

J. E. Moyle

Vice-President, Mining Engineering

J. A. Sadler

Vice-President, Special Projects

ATLAS STEELS

A. V. Orr

Vice-President, General Manager

H. L. Brien

Vice-President, Engineering

C. E. Ohlson

Vice-President, Marketing

F. S. Robinson

Vice-President, Purchasing and Traffic

D. V. Roland

Vice-President, Export Sales

G. L. Sandler

Vice-President, Finance

W. V. Vincent

Vice-President, Sales

ATLAS ALLOYS

W. D. Dobbin

Vice-President, General Manager

K. Collyer

Vice-President, Canadian Operations

J. B. Dunn

Vice-President, Controller

LORNEX MINING CORPORATION LTD.

C. W. Reno

Vice-President, General Manager

Rio Algom

Rio Tinto

Rio Algom Limited

Interim Report to the Shareholders

For the six months ended June 30, 1976

TO THE SHAREHOLDERS:

Consolidated net earnings for the first six months of 1976 were \$16,355,000 compared to \$15,627,000 for the same period in 1975. The comparative net earnings per common share were \$1.18 and \$1.25 respectively. The earnings per common share are calculated after providing for dividends on first preference shares and are based on the average number of common shares outstanding during the respective periods; 1,226,113 common shares were issued in July, 1975 under a rights offering and this is the reason earnings per share show a decline in 1976.

Despite a decrease in earnings before taxes and minority interest as compared to last year, net earnings were slightly higher due to a substantial decrease in taxes. Taxes were lower largely because of lower earnings in uranium mining and steel operations, the effect, under the graduated Ontario mining tax rates, of lower earnings and higher capital expenditures in uranium mining operations for the first six months of 1976, and to some extent the repeal of the British Columbia Mineral Royalties Act.

Earnings increased at the Company's majority-owned Lornex copper-molybdenum mine in British Columbia; copper prices were higher in 1976 and copper production increased. Copper prices have shown a rising trend since mid-February and London Metal Exchange prices were about 75 cents per pound in mid-July; in contrast LME prices dropped slowly through the first half of 1975 and were approximately 56 cents per pound in mid-July, 1975. Copper production was higher this year due to increased tonnage milled; as previously reported production levels at the Lornex mine have been increased in 1976 due to additional deliveries of copper in concentrate to a United States company.

Revenue and earnings from uranium operations were lower in the first six months of 1976 than in the same period last year due to reduced uranium production resulting from slightly lower ore grades and to escalating costs.

During the second quarter of 1976 arrangements were completed for the sale of plant and equipment of the Mines de Poirier copper mine which had been permanently closed on June 27, 1975. The gain of \$1.5 million realized on the sale is included in earnings for the period.

Earnings from the company's steel operations were considerably lower than in the comparable period of 1975 due to rising costs, depressed market conditions and a two-month strike, which ended May 2, 1976, at the Tracy plant of Atlas Steels.

On June 30, 1976 the Company purchased a small steel warehousing and distribution business located in the Chicago area. This acquisition has become part of Atlas Alloys Inc., our U. S. specialty metals service centre subsidiary company.

For the first six months of 1976 the Company had net interest income as compared to net expense last year, largely due to an improved cash position partly resulting from the receipt of U. S. \$40M in April and May, 1976 from two uranium spot sales made in 1975 and from the July 1975 rights issue; interest rates on funds invested were also higher during the first half of 1976.

Collective bargaining agreements, covering some 650 hourly rated employees at Lornex, have been signed with the Union and will have to be submitted to the Anti-Inflation Board for approval. Other tentative agreements covering hourly rated employees at the Welland and Tracy steel plants are also subject to Board approval but rulings have not been received as yet. A letter of understanding has been signed by the Company and the Union at Elliot Lake giving effect to the A. I. B. decision which rolled back increases granted in the agreement with Elliot Lake hourly rated employees.

R. D. ARMSTRONG
*Chairman and
Chief Executive Officer.*

G. R. ALBINO
*Toronto, Canada
July 29, 1976.*

G. R. ALBINO
*President and
Chief Operating Officer.*

RIO ALGOM LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

for the six months ended June 30, 1976
(\$000's omitted)

	1976	1975
Revenue:		(note 2)
Revenue from mine production and sales of steel and other products	\$ 195,207	\$ 191,826
Expenses:		
Cost of mine production and steel sales	135,918	123,692
Selling, general and administration	15,859	15,120
Interest (net) (note 1)	(1,571)	2,336
Depreciation and amortization	10,497	10,837
Exploration	3,050	2,142
	163,753	154,127
Earnings before taxes and minority interest	31,454	37,699
Income and mining taxes and government royalty	12,332	21,822
Earnings before adjustment for minority interests in subsidiary company	19,122	15,877
Minority interests in profits of subsidiary	2,767	250
Net earnings for the period	\$ 16,355	\$ 15,627
Earnings per common share	\$ 1.18	\$ 1.25

Notes:	1976	1975
(1) Interest (net) consists of:		
Interest on demand bank loans	\$ 245	\$ 851
Interest on long term debt	4,646	2,658
Interest capitalized	(1,087)	—
Investment and other income	(5,375)	(1,173)
	\$ (1,571)	\$ 2,336

- (2) The 1975 figures shown in the above statement differ in certain respects from those previously reported by reason of reclassification for comparative purposes of certain items contained therein.

Approved on behalf of the Board:

R. D. Armstrong, Director

G. R. Albino, Director

Subject to year end audit and adjustments.

RIO ALGOM LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended June 30, 1976
(\$000's omitted)

	1976	1975
Source of Funds:		
Earnings before adjustment for minority interests in subsidiary company	\$ 19,122	\$ 15,877
Add items included in earnings not involving current outlay of funds:		
Depreciation, amortization and other charges (net)	11,047	11,298
Deferred income and mining taxes	11,850	4,258
Funds provided by operations	42,019	31,433
Bank loan of subsidiary	1,934	—
Housing and other mortgages	2,885	—
Issue of common shares under stock option plan	402	37
Housing loans of subsidiary (net)	707	140
	47,947	31,610
Disposition of Funds:		
Expenditures (net) for plant and equipment, mining properties and preproduction	17,782	9,399
Investment in affiliated company	917	1,500
Dividends on common shares	6,752	6,744
Dividends on preference shares	340	346
Purchase of minority shareholders' interest in subsidiary company	—	1,258
Purchase of preference shares for cancellation	6	99
Royalties recoverable	1,309	—
Reduction of long term debt:		
Rio Algom Limited debentures	1,936	1,000
Bank loans of subsidiary	625	625
8 ¾% Notes of subsidiary	—	5,835
	29,667	26,806
Increase in Working Capital	18,280	4,804
Working Capital, beginning of period	215,766	155,024
Working Capital, end of period	\$ 234,046	\$ 159,828

AR10